

STATE OF MAINE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES
OFFICE OF THE STATE CONTROLLER
14 STATE HOUSE STATION AUGUSTA, MAINE 04333-0014

JOHN ELIAS BALDACCI
GOVERNOR



REBECCA M. WYKE
COMMISSIONER

EDWARD A. KARASS
STATE CONTROLLER

TO: Internal Control Officers

FROM: Chris Campbell, Audit Analyst
Internal Control Division

DATE: April 21, 2004

SUBJECT: Control documentation due by June 30, 2004

Congratulations to you all for being designated the Internal Control Officers for your respective State agencies. The staff of the Internal Control Division looks forward to working with you in a joint effort to document and improve internal controls throughout State government. Now that we have identified the vast majority of Control Officers in the State, I have created a mailing list to communicate guidance, requirements and training opportunities related to internal controls. Please contact Chris Campbell or Tom Giordano with any questions or concerns.

Because most agencies have only recently begun to address the requirements for control documentation, and because of the shortness of time before the due date, the State Controller has reprioritized what should be accomplished by June 30, 2004. We are now requiring only that the risk assessment questionnaires (available on the Controller's website) be completed and that financial procedures be documented by June 30. The Departmental Internal Control Plan is not due at that time.

Risk Assessment Questionnaires

We require that the risk assessment questionnaires be completed and submitted to the Office of the State Controller by June 30, 2004, and again each year by June 30. These questionnaires are designed to help you identify risk and eliminate consideration of risks that do not apply to your agency. The questionnaires serve as an aid in evaluating how well risks are being addressed through present control policies and practices. They are designed to raise awareness of certain issues and encourage further analysis and discussion. They will also help the Controller's Office identify potential problem areas in order to offer assistance and provide guidance. The questionnaires are available in the Internal Control section of the Controller's website. You can reach this page by clicking the following link:

http://www.state.me.us/bac/internal_control/SelfAssessment/Index.htm

The first two questionnaires listed on the web site cover two components of internal control, Control Environment and Risk Assessment. Please fill out one set of these for each distinct management environment within your agency. You may only need one set if you are in a homogeneous management environment.

The Financial Cycle links take you to questionnaires related to particular transactions types. All of these cycles may not apply to your agency. The inventory cycle applies only to significant inventories of goods intended for distribution or use, but not office supplies, fixed assets or high risk items like computers. The fixed asset cycle includes items normally classified as fixed assets and high risk items such as computers, other electronic devices, firearms, etc.

A set of Federal Program Compliance questionnaires needs to be filled out for each federal program that expended more than \$4 million as reported on the most recent Schedule of Expenditures of Federal Awards (SEFA). You may consolidate these to the extent that different programs are handled in the same manner. Therefore, you may have fewer sets of questionnaires than programs for which you are covering. Most federal programs are not covered by all of the compliance areas. Please complete only those that apply.

Documentation of Financial Procedures

We are requiring that financial related procedures be documented by June 30, 2004. This documentation should reflect practices as of June 30 and should be continuously updated after that date as necessary. Financial related procedures relate to the following areas of responsibility and risk:

1. Prevention and detection of loss or misuse of assets.
2. Accurate financial reporting.
3. Compliance with laws and regulations.

These are distinct from mission related procedures such as program performance concerns. While we are not requiring documentation of mission related controls and procedures, we highly recommend that agencies document these as well.

Financial procedures include those related to all relevant financial cycles. The following cycles and related transaction types should be covered:

1. Cash Receipts Cycle – Includes the receipt of currency, checks, EFTs, etc. This is distinct from the revenue/receivables cycle and covers procedures to accept, receipt, deposit, record, etc. cash in any form.
2. Cash Disbursement Cycle – This cycle is applicable only if your agency disburses funds through channels other than Mfasis or an interface with Mfasis (e.g., expends currency or writes its own checks). This cycle includes the disbursements of a petty cash fund.
3. Revenue/Accounts Receivable – Concerned with the proper accounting treatment of revenue and amounts owed the State. Also of primary concern is how amounts owed the State are tracked, pursued and collected.

4. Purchasing/Accounts Payable – Concerned with handling and payment of invoices, grant and contract payments, and agency involvement in purchasing and contracting.

5. Inventory – Concerned with significant inventories of goods intended for sale or use. This cycle does not include office supplies or other low cost items, fixed assets or high risk items such as computers.

6. Fixed Assets – Concerned with proper tracking and accounting treatment of fixed assets and high risk items such as computers, other electronic devices, firearms, etc. This cycle includes procedures to perform the annual physical inventory of fixed assets.

Financial procedures also include those related to the administration of federal programs. You should document procedures related to the compliance areas for which risk assessment questionnaires are available. These include the following:

1. Allowability
2. Cash Management
3. Davis-Bacon Act
4. Eligibility
5. Matching, Level of Effort, Earmarking
6. Period of Availability
7. Procurement and Suspension and Debarment
8. Program Income
9. Reporting
10. Subrecipient Monitoring

Most federal programs do not have all of these areas as a concern. Please address only those that apply. If procedures for a particular compliance area are covered in the financial cycle procedures, it is not necessary to cover them again.

You should cover all federal programs for which annual expenditures exceeded \$4 million as reported on the most recent SEFA. We encourage you to consolidate coverage of various programs that are handled in substantially the same manner.

In both the financial cycle and federal program procedures, it is not required for you to cover procedures performed by other agencies at the Statewide level. Examples of Statewide level procedures are purchasing services offered by the Division of Purchases, check writing and mailing services provided by the State Treasurer, and accounting services provided by the Office of the State Controller.

In both the financial cycle and federal program procedures, be sure to include documentation of journal voucher activity. This activity can at times be considered part of the cycles and/or federal program administration. In cases where you cannot logically integrate journal activity into these other procedures, you should document journal voucher procedures separately.

Significant policies related to financial procedures should be either integrated into procedural documentation or documented separately as appropriate. These policies might include rules governing who has signature authority for the various transaction types, specific dollar cutoffs that require special treatment of a transaction, and limitations on uses of petty cash funds.

In order to facilitate communication and evaluation of controls, it should be possible for Internal Control Officers to put their hands on all internal control documentation, including procedural documentation, without assistance.

Departmental Internal Control Plan

The Departmental Internal Control Plan is a conceptual document that identifies risks and details control objectives and key control activities that address those risks. The document is essentially a risk management tool. It serves not only to document how risks are being addressed but serves as a control in itself. We are not requiring that this document be completed by June 30, 2004.

The Internal Control Division will visit agencies after June 30, 2004 to evaluate risk assessment questionnaires, documentation of procedures and the procedures themselves. This is an integral component of our efforts to improve controls throughout State government. We will also offer assistance with the Departmental Internal Control Plan for you agencies. We will assist in the identification of risk and the key controls that address that risk. We will offer training to Internal Control Officers (and other interested personnel) on internal controls and, specifically, the Departmental Internal Control Plan. The first session is planned for the first week in July.